LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7458 **DATE PREPARED:** Jan 10, 2001
BILL NUMBER: HB 1708 **BILL AMENDED:**

SUBJECT: Clean coal technology investment tax credit.

FISCAL ANALYST: Chris Baker
PHONE NUMBER: 232-9851

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			(10,000,000)
State Expenditures			
Net Increase (Decrease)			(10,000,000)

Summary of Legislation: This bill provides a credit against State tax liability equal to 20% of certain qualified investments for the purchase or installation of Clean Coal Technology. The bill provides that a taxpayer may not claim the credit unless: (1) the Indiana Utility Regulatory Commission (IURC) certifies that the investment is a qualified investment; and (2) the taxpayer submits and the IURC approves a plan describing the possible effects that the proposed installation of the clean coal technology will have on the taxpayer's operation. The bill also specifies that not more than $10,000,000 in credits may be allowed in any State fiscal year.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will have administrative expenses to revise tax forms, instructions and computer programs for the proposed tax credit. These expenses can be covered in its existing budget.

Explanation of State Revenues: The Clean Coal Technology Tax Credit would have a maximum fiscal impact of $10,000,000 per fiscal year beginning in FY 2003. The first impact of this credit will occur in FY 2003 since it applies to tax years which begin after December 31, 2001. If the approved credit amount exceeds the state tax liability of the taxpayer, the taxpayer can carry forward excess to subsequent taxable

years. The amount of the credit is twenty percent of the qualified investment made by the taxpayer.

In order to qualify for the credit, any expenditure being considered for the credit must be approved by the Indiana Utility Regulatory Commission (IURC) before investment in the technology is made. The DOR is required to record the filing date of each application for credit. Approval of the credits is on a chronological basis, until the maximum limit of credits to be approved in a State fiscal year is reached. If there are filings for this credit after the maximum limit of credits awarded has been reached in a State fiscal year, remaining applicants may have part or all of the qualified investment placed as a credit in the next succeeding State fiscal year. Taxpayers cannot receive any carryback or refund of any unused credit.

The funds affected by the proposal are the Property Tax Replacement Fund and the General Fund.

A least one taxpayer exists in Indiana currently that has Clean Coal Technology installed. The plant facility in question is a part of the U.S. Department of Energy (DOE) Clean Coal Technology Program. The DOE Program provides Federal funding for a percentage of the cost of implementing Clean Coal Technology. The DOE selects a facility location in partnership with a private firm, which supplies the remaining investment. The facility described above is one of nine Clean Coal Technology projects currently in operation in the United States. The cost for this facility was approximately $438 M. The funding was split as the DOE invested 50% of the cost and the taxpayer invested 50%. Had a tax credit for the project been approved by the IURC *before* installation, the taxpayer, assuming all investment qualified, could have been eligible for $43 M. Given the cap in place at $10 M per fiscal year, this taxpayer would have had the opportunity to have the remainder applied in future state fiscal years.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Utility Regulatory Commission.

Local Agencies Affected:

Information Sources: Department of State Revenue; Nelson F. Rekos Jr., US Department of Energy, National Energy Technology Lab, Office of Technical Management (304) 285-4066; US Department of Energy, Office of Fossil Energy; SPRU Research, University of Sussex (UK).